

Message Text

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ORIGIN EB-07

INFO OCT-01 ARA-06 ISO-00 FEA-01 AGRE-00 CEA-01
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SS-15 STR-04 ITC-01 TRSE-00 USIA-06 PRS-01 SP-02
OMB-01 CAB-02 DOTE-00 FAA-00 XMB-02 /086 R

DRAFTED BY EB/OT/GCP - R REIS
APPROVED BY EB/ITP - W BARRACLOUGH
ARA/ECA - T SHUGART
ARA/ECP - W BURSON
COMMERCE - N MORGAN
STR - B STEINBOCK

-----151420Z 009322 /45

R 150241Z MAY 77
FM SECSTATE WASHDC
TO AMEMBASSY BRASILIA
INFO AMCONSUL SAO PAULO
AMCONSUL RIO DE JANEIRO

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E.O. 11652: N/A

TAGS: ETRD, BR

SUBJECT: BRAZILIAN RESTRICTIONS ON GENERAL AVIATION
AIRCRAFT

1. ON APRIL 27 ROBERT LAIR, THE SENIOR VICE PRESIDENT
OF CESSNA AIRCRAFT, CALLED SEPARATELY ON ASSISTANT
SECRETARY OF STATE JULIUS KATZ AND ON DEPUTY ASSISTANT
SECRETARY OF COMMERCE STANLEY KATZ TO DISCUSS BRAZIL'S
RESTRICTIONS ON THE IMPORT OF LIGHT AIRCRAFT AND TO
ASK FOR THE UGS'S ASSISTANCE IN GETTING GOB APPROVAL OF
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CESSNA'S PROPOSAL FOR AN AIRCRAFT ASSEMBLY OPERATION
IN BRAZIL.

2. IN HIS CONVERSATION WITH ASSISTANT SECRETARY OF STATE
KATZ, LAIR PRESENTED CESSNA'S CASE IN A STRAIGHTFORWARD
AND UNEMOTIONAL WAY, BUT STRESSED THAT IN RECENT
DISCUSSIONS BRAZILIAN OFFICIALS HAD TOLD CESSNA THAT

THE US GOVERNMENT HAD SHOWN NO INTEREST IN CESSNA'S GRIEVANCE. HE REITERATED CESSNA'S COMPLAINTS ABOUT BRAZIL'S IMPORT RESTRICTIONS, NOTING THAT IN 1976 CESSNA HAD SOLD ONLY SEVEN AIRCRAFT IN BRAZIL, ALL OF THEM LICENSED FOR IMPORT PRIOR TO BRAZIL'S INTRODUCTION OF RESTRICTIONS IN 1974. HE CLAIMED ATTEMPTS TO OBTAIN LICENSES SINCE 1974 HAD BEEN FRUITLESS BECAUSE COTAC

REFUSED TO ACCEPT LICENSE APPLICATIONS. HE ALSO STATED THAT THOUGH CESSNA WOULD PREFER TO EXPORT ASSEMBLED AIRCRAFT TO BRAZIL, IT HAD RECENTLY SUBMITTED ANOTHER PROPOSAL TO BUILD AN ASSEMBLY PLANT IN BRAZIL, AND THAT THE PROPOSAL CONTAINED LIBERAL TERMS FOR TECHNOLOGY TRANSFER AND IN-COUNTRY MANUFACTURE OF COMPONENTS.

3. LAIR ASSERTED THAT THE IMPORT RESTRICTIONS ON LIGHT AIRCRAFT WERE AGAINST BRAZIL'S OWN INTEREST. HE CLAIMED THAT DUE TO LACK OF COMPETITION THE BRAZILIAN AIRCRAFT INDUSTRY IS NOT KEEPING PACE WITH TECHNOLOGICAL ADVANCES AND THAT THE SERVICE AND TRAINING SYSTEMS THE CESSNA DISTRIBUTOR PREVIOUSLY OPERATED ARE DIS-INTEGRATING AND ARE NOT BEING REPLACED. MOREOVER, ACCORDING TO LAIR, THE PRICES OF PIPER AIRCRAFT ASSEMBLED AND SOLD IN BRAZIL ARE DOUBLE THOSE MANUFACTURED AND SOLD IN THE UNITED STATES. LAIR CLAIMED THAT GIVEN THE HIGH PRICES, CESSNA COULD COMPETE EVEN WITH THE 50 PERCENT DUTY AND HIGHER DELIVERY COSTS. ASSISTANT SECRETARY OF STATE KATZ EXPLAINED TO LAIR THAT DUE TO OVERALL STRAINS IN BILATERAL LIMITED OFFICIAL USE

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RELATIONS, OUR LEVERAGE WITH THE BRAZILIAN GOVERNMENT IS LIMITED AT PRESENT, BUT THAT THE US GOVERNMENT AGAIN WOULD BRING CESSNA'S TRADE COMPLAINT TO THE ATTENTION OF THE BRAZILIAN GOVERNMENT.

4. THE DEPARTMENT RECOGNIZES THAT MOST OF THE BRAZILIAN MEASURES AFFECTING CESSNA ARE PART OF THE OVERALL IMPORT RESTRICTION PROGRAM WHICH IS DESIGNED TO CORRECT THE COUNTRY'S BALANCE OF PAYMENTS DEFICIT AND WHICH BRAZIL JUSTIFIES UNDER GATT ARTICLE XVIII. HOWEVER, PARAGRAPH 10 OF ARTICLE XVIII AND PARAGRAPH 3 (C) (II) OF ARTICLE XII PROVIDE THE BALANCE OF PAYMENTS RESTRICTIONS SHOULD NOT "PREVENT UNREASONABLY THE IMPORTATION OF ANY DESCRIPTION OF GOODS IN MINIMUM COMMERCIAL QUANTITIES THE EXCLUSION OF WHICH WOULD IMPAIR REGULAR CHANNELS OF TRADE." THE TRADE STATISTICS ON AIRCRAFT IMPORTS (AS OPPOSED TO COMPONENTS) AND CESSNA'S COMPLAINT PROVIDE PRIMA FACIE EVIDENCE THAT BRAZIL IS NOT ALLOWING THE IMPORTATION OF LIGHT AIRCRAFT

IN MINIMUM COMMERCIAL QUANTITIES.

5. WE INTEND TO RAISE THE PROBLEM AT THE NEXT MEETING OF THE TRADE SUBGROUP. IN THE MEANTIME, HOWEVER, THE EMBASSY IS REQUESTED, AS OPPORTUNITIES OCCUR, TO INFORM APPROPRIATE BRAZILIAN OFFICIALS OF THE US GOVERNMENT'S CONTINUING INTEREST IN THE CESSNA CASE.

THE EMBASSY SHOULD MAKE THE FOLLOWING POINTS:

-- WE HAVE BROUGHT TO THE GOB'S ATTENTION THE PROBLEM OF THE EMBARGO ON IMPORTS OF LIGHT AIRCRAFT WITHOUT RESULT.

-- CESSNA HAS ALLEGED IT HAS BEEN UNABLE TO OBTAIN IMPORT LICENSES FOR ITS AIRCRAFT. IN 1976 IT SOLD ONLY 7 AIRCRAFT IN BRAZIL, ALL OF THEM LICENSED PRIOR LIMITED OFFICIAL USE

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TO THE 1974 REGULATIONS. SUCH STRICT APPLICATION OF THE RESTRICTIONS ON GENERAL AVIATION AIRCRAFT SEEMS TO VIOLATE THE MINIMUM COMMERCIAL QUANTITY PROVISIONS OF GATT.

-- WE HAVE, OF COURSE, UNDERSTOOD BRAZIL'S NEED TO CORRECT ITS TRADE DEFICIT OVER THE LAST THREE YEARS. HOWEVER, WE DO NOT BELIEVE THE ELIMINATION OF ALL FOREIGN COMPETITION IS IN EITHER COUNTRY'S BEST INTERESTS.

-- WE UNDERSTAND THAT THE PRICES OF AIRCRAFT PRODUCED AND SOLD IN BRAZIL ARE CONSIDERABLY HIGHER (FROM 73 PERCENT TO 93 PERCENT HIGHER, ACCORDING TO CESSNA'S FIGURES) THAN THE PRICES OF THE SAME AIRCRAFT PRODUCED AND SOLD IN THE UNITED STATES. SOME COMPETITION COULD BENEFIT THE BRAZILIAN CONSUMER AND HELP THE BRAZILIAN INDUSTRY KEEP PACE WITH TECHNOLOGICAL ADVANCES.

-- WE NOTE THAT BRAZIL'S TRADE BALANCE HAS VASTLY IMPROVED AND BELIEVE THAT SOME RELAXATION OF ITS RESTRICTIONS OF GENERAL AVIATION AIRCRAFT IMPORTS SHOULD NOW BE POSSIBLE. WE URGE THAT BRAZIL TAKE STEPS AS SOON AS POSSIBLE IN THAT DIRECTION.

6. ALTHOUGH THE GOB HAS TURNED DOWN CESSNA'S LATEST ASSEMBLY PROPOSAL, LAIRSAID CESSNA IS STILL DISCUSSING THIS WITH THE GOB AND IS WILLING TO NEGOTIATE AT ANY TIME. THE EMBASSY IS REQUESTED TO CONVEY THIS SENTIMENT AT SUCH TIME AS IT DISCUSSES THE CESSNA CASE WITH GOB OFFICIALS.

7. REQUEST THE EMBASSY REPORT THE REACTION OF
BRAZILIAN OFFICIALS TO THE EMBASSY'S APPROACH. CHRISTOPHER

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